

The Midcontinent and the Peace

*The Interests of Western Canada and Central
Northwest United States in the Peace Settlements*

A JOINT PRELIMINARY REPORT PREPARED UNDER
THE AUSPICES OF THE UNIVERSITY OF MANITOBA
AND THE UNIVERSITY OF MINNESOTA IN RESPONSE
TO A REQUEST FROM

*The Premier of the Province of Manitoba and
The Governor of the State of Minnesota*

THE UNIVERSITY OF MANITOBA AND THE UNIVERSITY OF MINNESOTA
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August 1, 1943

The Honorable Stuart S. Garson, Premier
Parliament Building
Winnipeg, Manitoba

The Honorable Edward J. Thye, Governor
The Capitol
St. Paul, Minnesota

Gentlemen:

In separate letters in late 1941, the former Premier of the Province of Manitoba, the Honorable John Bracken, and the former Governor of the State of Minnesota, the Honorable Harold E. Stassen, wrote to each of us requesting our respective universities cooperatively to undertake the task of inquiry into the problems that will face the Prairie Provinces of Canada and the Central Northwest States of the United States when the present great world conflict is ended. The request was also made that consideration be given to policies that would be desirable in the future collaboration which the peoples of Canada and the United States will wish to continue to secure a sound and lasting peace.

It is in response to these requests that this preliminary report, entitled "The Midcontinent and the Peace," has been prepared by the members of the staffs of our universities. It is submitted at this time in order that principles may be advanced for thoughtful discussion and consideration, by means of which alone a sound and informed public opinion can be secured. In this work the Universities of Manitoba and Minnesota take pleasure in service to the people of the Prairie Provinces and Central Northwest United States.

Yours very truly,



Sidney E. Smith, President
The University of Manitoba



Walter C. Coffey, President
The University of Minnesota

The Interests of Western Canada and Central Northwest United States in the Peace Settlements

Origins of this Preliminary Report

This report has its origin in two official requests made in December 1941 by the Heads of the Governments of the Province of Manitoba and the State of Minnesota to the Presidents of the Universities of Manitoba and Minnesota. The requests were made jointly because of the belief that many common peace settlement problems would be faced by the people of the great area of the Prairie Provinces of Canada and the Central Northwest States of the United States. The two universities, therefore, were asked to make a study of these problems and to report upon "effects of alternative postwar settlements" on this important area in the heart of the North American Continent.

A grant of \$7500 was made by the Rockefeller Foundation in support of the project. About \$1500 of this amount was used in the preparation of background material for this report, a larger part has been reserved for uncompleted research into the problems common to the agriculture of the two areas, and the remaining amount has been used for printing and distribution of this report.

Purpose of the Report

Those responsible for the preparation of this report have believed that it is of the utmost importance that general proposals should be stated for consideration of those who will be definitely assigned the great responsibility of preparing the peace settlements. These settlements will include political, military, and economic arrangements that will have the objective of securing a more ordered and prosperous world at the end of present hostilities. This report advances only a few basic economic principles and suggestions in order that there may be widespread public discussion. Only from such discussion can a sound and informed public opinion be formed. It is such a set of principles that must now guide those who later will give effect to the hopes and desires of every citizen of Canada and the United States in the final peace settlements.

This report speaks frankly in the economic vocabulary of the great area in which it has its origin. It assumes that other great areas, jointly or separately, will also present their views. Only in this way can the aspirations of all of us and the interests of each of us be understood

as they must be understood to achieve what the great and friendly peoples of Canada and the United States wish for the future.

This is a *preliminary* report for the reason that it has seemed important to advance at this time a set of three general proposals that can be recommended for the earnest consideration of those who must determine our national and international position. These principles are:

1. A proposal that the countries of Western Europe shall greatly increase their importations of wheat, lard, and pork from the surplus-producing countries, including Canada, the United States, Argentina, and Australia.

2. A proposal that Canada and the United States cooperatively re-organize their automobile-producing industries by means that will secure for Canada maintained employment for her workers in her automobile factories and secure substantial reductions in the cost of automobiles to Canadian buyers; the United States section of the industry likewise will secure a larger output of automobiles and some, though perhaps slight, reduction in costs.

3. A proposal that the agriculture of the Prairie Provinces of Canada and of the Central Northwest United States continue after the war to follow further the lines of agricultural specialization that will have been developed by each of them during the war.

In our work together, the committees have found that their views have paralleled each other over a range of ideas as great in extent as our common boundary — extending unfortified for more than 3000 miles.

This report is not intended to, nor does it, advance any set of claims. In fact, the principles advanced are recommended for thorough testing in other regional studies and in all international studies. Any of the here recommended principles which stand such a test may then be considered to have been soundly conceived. Those which do not should be rejected.

The long and historic friendship of the people of Canada and the United States with each other, which had prevailed for a century before the first World War, may perhaps be said to have prevented, in the peace settlements of 1919, a realistic appraisal of the interests of the many groups that make up Canada and the United States. There is no denying that the interests of minority groups in Europe found commanding voices in that peace settlement. In fact, it has been said 'that some of those minorities "made a noise out of all proportion to their size." The fundamental purpose of this report, therefore, is to state for the benefit of all concerned views that should be heard, but that should be listened to only if they stand the test of reason.

Responsibility for the Report

It is, of course, to be made clear that no responsibility for this report attaches to any officials of either the Province of Manitoba or the State of Minnesota. The responsibility for the general preparation of the report has rested with two committees. The first committee, for the University of Manitoba, consisted of William J. Waines, Chairman, and John E. L. Graham, Henry C. Grant, William F. Lougheed, William H. Poole, William T. Easterbrook, and Louis C. Wagner. The second committee, for the University of Minnesota, consisted of Russell A. Stevenson, Chairman, and Roy G. Blakey, Frederic B. Garver, Oscar B. Jessen, Richard L. Kozelka, Emerson P. Schmidt, Arthur R. Upgren, and Warren C. Waite.

The work of drafting the report has been done by Arthur R. Upgren, director of the project, and William J. Waines, associate director. The responsibility for the way the report is written rests with these men. The two committees have approved the general principles that are advanced. The joint committees are in complete agreement that these principles should at this time be submitted for public review and appraisal. Such a test is the only final test that a report of this kind can have.

Summary

Of the five divisions of the report, Part I presents a discussion of the great importance of direct internal or domestic economic policies as international measures. It may be puzzling to the reader that domestic measures can also be considered as *international* measures. This is a fact, however, because the maintenance of sound and strong *internal* economies in Canada and the United States has resoundingly important effects upon the external world.

This reasoning follows the simple fact that our two domestic economies operating at high rates of activity draw heavily upon the rest of the world for goods used in their immense domestic industrial production. By maintaining a high rate of economic activity at home both Canada and the United States fulfill their greatest single responsibility to the rest of the world. This is so because that responsibility is nothing more than to use their resources so as to assist in the creation of those conditions which will permit other nations similarly to use *their* own domestic resources to the full. Put more simply, if our own economies build themselves strong, they create outlets for goods of other countries. It is then the responsibility of such other countries to adopt sound internal economic measures of their own. In this way they can advance themselves as we advance ourselves.

Part II presents a very brief review of certain main features of the international position of Canada and the United States. In this section the trade of each country with the rest of the world is briefly given. There is also a brief exposition of the trade relations of Canada and the United States with each other. In this way the kinds of economic interests Canada and the United States have with the rest of the world, and that the rest of the world has with us, can be put in bold relief. Similarly, there are reviewed the mutual interests of our own two countries with each other. This section shows how these mutual interests have been steadily growing and how, relatively, our competitive interests have been declining. It is this change in our position with respect to each other that so strongly urges the resort to mutual efforts, as represented by this report itself, to solve the greater problems we have in common and the lesser problems we have with each other.

Each of the three final sections presents in an illustrative way general principles that deserve consideration in all the settlements that may be necessary at the end of the war. Each of these principles applies to a particular setting or area for which principles are badly needed if we are to give sensible shape to the future.

Part III, based upon the relations of Canada and the United States with the outside world, advances a specific proposal illustrative of the principles that should guide not only our economic arrangements with the rest of the world, but those we recommend as well to guide the economic arrangements of the other nations of the world with one another.

Part IV, based upon some characteristics of the "industrial economy" relationships of Canada and the United States with each other, advances in a specific proposal lines of joint action recommended to strengthen the employment and productivity of each of our countries.

Part V, based upon a survey of conditions in the Prairie Provinces and the Central Northwest United States, develops the lines of inquiry into improvements with respect to each other that may be made in the relations of each of these two sub-areas of our two countries with the other. This work is not complete but it is hoped that the investigation into it can be continued and that later reports upon it may be presented in the future.

I

The Dependence of International Trade upon Domestic Prosperity

After the war, when the civilian populations of Canada and the United States no longer "have to do without," a high rate of industrial production at home can and will create a high demand for the raw materials from the rest of the world. *Our* high demand is the basis of much of their production. Correspondingly, if our industrial activity is not maintained at a high level, goods will not be taken from abroad and the countries formerly furnishing those goods — especially the one-commodity countries — will suffer. In other words a highly active, well-diversified *internal* economy, whose weight in the world is heavy, places upon the rest of the world in turn a heavy draft for goods, and thus it is that the *domestic* economic policies of Canada and the United States can have international effects of the utmost importance. This would not be true, of course, in the case of small or "single-crop" countries.

To illustrate the far-reaching effects of internal depression, we can imagine what would have been the situation of the Netherlands East Indies had they attempted to increase income by producing more rubber in a year such as 1932 when their greatest customer was deep in depression. Although the price fell from 20 cents a pound to less than 4 cents, industries in the United States bought in 1932 only half their normal purchases of rubber, and at the greatly reduced prices.

We can see the results upon imports of prosperity and depression at home by surveying a short list of commodities (Table 1) that the United States, for example, needs for its industrial production and comparing the amounts of them that were needed in 1929, a year of high output, with those needed in 1932 when industry was depressed. The amount of commodities imported in 1900 is also given to show how greatly industrialization has increased the import of these commodities during a single generation. The leading source of each commodity is also indicated, as well as the duty status in 1932. Separate figures are not given for Canada owing to the fact that the United States secures some of the commodities in Canada and also to the fact that the United States imports in many cases include what can be called the Canadian share because the ultimate destination of them is Canada.

TABLE 1. VALUE OF SELECTED IMPORTS INTO THE UNITED STATES FOR SELECTED YEARS,
 INCLUDING RATES OF DUTY AND LEADING SOURCES OF SUPPLY
 (The commodities embrace a small but representative group of imported materials)

Commodity	Value of Imports (in millions of dollars)			Import Duty as a Percentage of Value of Import	Leading Source of Import		
	Annual Average		1932				
	1901-5	1929					
Silk, raw	45	432	114	Free	Japan		
Coffee	69	302	137	Free	Brazil		
Rubber	35	245	33	Free	SE. Asia		
Paper	4	145	85	Free	Canada		
Hides and skins	56	197	{ 17	Free	SE. Asia		
			6	10	S. America		
Sugar	77	130	38	103	Cuba		
Wood pulp	3	118	54	Free	Baltic Europe		
Tin	22	92	16	Free	SE. Asia		
Vegetable oils	7	{ 78	22	Free	SE. Asia		
		22	8	72	SE. Asia		
Nickel		17	4	12	Canada		
Total	318	1718	534				

In less than *three decades* United States imports of the ten different commodities listed in Table 1 increased from slightly more than 300 to more than 1700 million dollars. With the great decline in industrial activity in the *three* years from 1929 to 1932, best reflected by the decline in the index for United States industrial production of from 100 in 1929 to 54 (that is, by 46 per cent) in 1932, United States imports of the ten commodities fell from 1718 to 534 million dollars (a decline of 69 per cent)—or almost 1200 million dollars.

Tariffs can hardly explain such a collapse in imports for the simple reason that only four of the ten commodities are subject to tariffs, and in two of these cases the rates are very low. This is not meant to imply that neither the United States nor Canada has high tariffs. Both countries do have high tariffs. They should be lowered. But even though a high import volume of such dutiable goods may be prevented by such high tariffs, it is equally important to remember that imports of such goods are also much larger in years of high activity and high incomes, even though the tariff rates continue to remain high. This is indicated in Table 2, which gives United States imports in 1929 and 1932 for goods on which tariff rates were *unchanged*, for most of the listed items, in the tariff legislation of 1930.

The declines in imports listed in Table 2 are not markedly different from the declines that were observed in Table 1. This, common sense

would tell us, should be the case for the consumers' goods listed in the lower section of the table, because our purchases, for example, of leather bags (dutiable) fall when we all individually have smaller incomes and for about the same reason that our import of wood pulp (non-dutiable) falls. We buy the former in large amounts when activity and incomes are high. It is also interesting to observe that bristles enjoy a reduced tariff without deviating from the import pattern of the other commodities, though this single case proves nothing conclusively. Only imports of cigarette paper were maintained, a result of the well-understood maintenance of United States cigarette production. In the depression the American people were not as determined to paint houses with bristle brushes as they were to continue smoking.

It will be recalled that Table I contained a list of imports including rubber, paper, hides and skins, wood pulp, tin, and nickel. In 1901-5 our annual average imports of these six raw materials were valued at probably less than \$100,000,000. In 1929 their import value was more than \$750,000,000. The increase reflects the fact that our great advances in productivity required these new products of other economies. Rubber and tin were secured in Southeastern Asia, British Malaya, and the Dutch East Indies. Paper and nickel the United States got almost entirely from Canada. Wood pulp comes from

TABLE 2 UNITED STATES IMPORT VALUES OF CERTAIN DUTIABLE RAW MATERIALS AND FINISHED PRODUCTS

	Value of Imports		Import Duty Rates	
	1929	1932	1929	1932
Raw materials				
Jute burlaps	\$77,377,000	\$16,908,000	1¢ per lb	Unchanged
Manganese ore	8,418,000	1,108,000	\$22.30 per ton	Unchanged
Bristles	8,327,000	2,813,000	7¢ per lb	3¢ per lb
Lithopone	957,000	272,000	1½¢ per lb	Unchanged
Total	<u>\$95,079,000</u>	<u>\$20,601,000</u>		
Finished products				
Leather bags, etc.	\$ 4,621,000	\$ 1,143,000	30% of value	35% of value
Toys	4,129,000	2,486,000	60% of value	60-70% of value
Cigarette paper	4,102,000	3,141,000	60% of value	Unchanged
Golf balls	.807,000	.396,000	30% of value	Unchanged
Band instruments	760,000	318,000	40% of value	Unchanged
Firecrackers	748,000	313,000	8¢ per lb	Unchanged
Castile soap	419,000	198,000	15% of value	Unchanged
Total	<u>\$15,586,000</u>	<u>\$ 8,875,000</u>		

Europe, and hides and skins in large amounts from South America. The need of industrial economies for such products for their growing industrial production in turn stimulates the economies of other countries. It is advances of this kind, such as were enjoyed in Canada and the United States from 1906 to 1929, that promote world trade.

In presenting the evidence that high rates of internal activity do result in world-wide improvement, our purpose has been to show that domestic policies aimed at bringing about such activity must be adopted at home if we are to secure a busy world either at home or abroad. If we have a busy world, we then have a situation favorable to all our exports—agricultural as well as industrial—because we are thereby stimulated and our greater activity requires greater imports from the rest of the world. It is for this reason that we have urged that our first thought be given to the maintenance of a high level of activity at home.

It is commonly said that agriculture is our “basic industry” and that it is our greatest “source of wealth.” It is much closer to the truth to say that industry in our country now has this preeminent position. Our agriculture now depends upon the healthy condition of industry, both at home and abroad, for the existence of its markets and the maintenance of its own health. It has been well said, “Tell me the amount of factory payrolls and I will tell you the price of meat and butter.”

This report, however, is intended to propose measures that are desirable in the international settlements that will make up the peace agreements after the war. For this reason we next turn to a study of such problems and then to a discussion of how some of them can best be solved. But it should be reiterated that only by keeping economically strong at home is a foundation provided for building a strong and productive international world.

II

The International Trade Position of Canada and the United States

A brief survey of the foreign trade of Canada reveals that its exports are preponderantly products of the field, forest, and mine. In fact, in 1925 products of the field — grain and livestock largely — made up no less than 60 per cent of total Canadian exports, and products of the forest 20 per cent. Exports of products of the mine were then less than 10 per cent. (Canada's trade year ends March 31 so that references below to 1938 figures are primarily for 1937, the year that has been selected for later figures given for the U. S.)

TABLE 3. THE TOTAL WORLD EXPORTS AND IMPORTS
OF CANADA BY MAIN GROUPS
(In millions of dollars, excluding gold.)

	1925	1938
Exports		
Farm products	797	852
Wood and paper	279	243
Nonferrous metals	97	183
Iron and its products and chemicals and allied products	92	87
"All other"	50	60
Total	1815	925
Imports		
Iron and its products and chemicals and allied products	210	227
Farm products	253	161
Nonmetallic minerals	139	133
Fibers and textiles	185	101
"All other"	141	180
Total	928	752

By 1938 exports of farm products had fallen to 38 per cent of total exports. Products of the forest had risen to 26 per cent of exports and products of mines — excluding gold — to 20 per cent of total exports.

In Table 3 are provided the figures for each class of all Canadian exports and imports in 1925 and 1938.

Turning to the imports in 1938 (Table 3), the products of "heavy industries," that is, iron and steel and its products, and chemicals, made up 30 per cent of total Canadian imports as compared with 23 per cent in 1925. These were secured in the largest part from the United States, whereas Canada's *exports* of farm products are shipped almost wholly to Europe, the world's one great "agricultural deficit area." Canada's export of products of the forest — in largest single part newsprint paper — is preponderantly to the United States. The export of nonferrous metals is divided between Europe and the United States.

The share of Canadian exports going to the United States is contrasted with total Canadian exports in Table 4. In recent years from one-third to one-half of all Canada's exports were sold to the United States.

A similar table is provided for Canada's imports from the United States in comparison with total Canadian imports (Table 5). Con-

TABLE 4. THE TOTAL EXPORTS OF CANADA AND CANADA'S
EXPORTS TO THE UNITED STATES
(In millions of dollars)

Year	Total Canadian Exports	Canadian Exports to the United States	Year	Total Canadian Exports	Canadian Exports to the United States
1900	163	53	1918	1540	418
1905	191	53	1919	1216	455
1910	279	104	1920	1299	464
1913	356	140	1921	1189	542
1914	432	163	1925	1069	417
1915	409	173	1930	1120	515
1916	742	201	1935	660	199
1917	1151	281	1939	927	376

TABLE 5 THE TOTAL IMPORTS OF CANADA AND CANADA'S
IMPORTS FROM THE UNITED STATES
(In millions of dollars)

Year	Total Canadian Imports	Canadian Im- ports from the United States	Year	Total Canadian Imports	Canadian Im- ports from the United States
1900	173	110	1918	963	782
1905	252	152	1919	920	750
1910	370	218	1920	1065	801
1913	670	436	1921	1240	856
1914	618	398	1925	797	510
1915	455	297	1930	1248	847
1916	507	370	1935	522	304
1917	845	664	1939	658	412

siderably more than half of the total imports, and at times two-thirds, are secured from the United States.

The Complementary Trade of Canada and the United States

In order to put into the boldest possible relief the nature of Canada's trade, a series of tables has been prepared (Tables 6-13 inclusive) which present the trade of Canada and the United States as though we made up a single economy. The purpose of these tables is to distinguish (1) the great trade we have with each other from (2) the trade we each as separate nations carry on with all the countries of the rest of the world.

In Table 6 is given for selected years since 1900 a list of Canadian export goods that are the same type of goods as are imported by the United States. This table has been derived by comparing class by class and listing all those items that Canada exports to the world which the

TABLE 6 CANADIAN EXPORTS OF GOODS IMPORTED BY THE
UNITED STATES IN SELECTED YEARS
(In millions of dollars)

Commodity	Canadian Exports of Classes of Goods Imported by the United States*			
	1900	1913	1925	1939
Paper	6	100	115	
Wood and wood products	21	50	153	99
Copper	1	10	13	44
Nickel	1	5	8	42
Animals and meat	6	9	13	39
Fish	7	16	33	32
Aluminum, etc . . . . .	..	2	6	25
Chemicals . . . . .	..	3	11	18
Furs	2	5	17	14
Dairy products	2	12	30	13
Asbestos . . . . .	..	2	2	10
Alcoholic beverages . . . . .	..	1	..	10
Leather and hides	3	9	15	10
Lead	1	..	10	7
Miscellaneous	12	37	96	96
"All other"	27	58	105	170
Total value of United States imports that Canada could supply (or total maximum complementary exports of Canada of goods that are needed by the United States)	83	245	612	744

*The amounts are those that Canada could supply to the United States, although in the past the United States may have purchased them from other countries as well

United States imports from the world and generally in large enough amounts to take all the Canadian articles exported. In other words, the transaction in each item involves the largest possible amount which could be achieved.

The totals so derived may be described as the greatest possible amount of trade we could carry on with each other and is later referred to as "maximized complementary trade." The like goods which we sell to (or buy from) the outside world is called "competitive trade."

As we have said, in Table 6 is given the amount of Canadian exports that the United States might buy on the assumptions considered. For example, in the case of the first item, paper, the United States could have secured \$115,000,000 from Canada in 1939.

Canada's total exports to the world in 1900, 1913, 1925, and 1939 are given in Table 7 (first line). In this table Canada's actual exports to the United States are given (second line) as well as the amount of total exports Canada *could* sell to the United States (third line) if we maximized our purchases from Canada. These latter amounts are the totals for the individual commodities that were given in detail in Table 6 immediately preceding.

TABLE 7. WHAT CANADA ACTUALLY EXPORTS TO THE UNITED STATES AND WHAT IT COULD EXPORT, COMPARED WITH CANADA'S TOTAL WORLD EXPORTS
(In millions of dollars.)

	1900	1913	1925	1939
Canada's total world exports	163	356	1069	927
Actual exports of Canada to the United States	53	140	417	376
Exports of Canada that the United States could buy if such purchases were maximized	83	245	612	744

The figures in Table 7 reveal that Canada had total exports to the world amounting to 927 million dollars in 1939. In that year her exports to the United States were 376 million dollars but had the United States "bought first" from Canada these purchases could have been increased to 744 million dollars. The percentages of (1) Canada's actual exports to the United States and (2) the maximized amounts such exports could reach in relation to Canada's total world exports are next given in Table 8 for the four years 1900, 1913, 1925, and 1939.

These comparisons reveal that the share of Canada's total exports which were sold to the United States has actually increased from 33 to 41 per cent and that the maximum possible trade could have been increased from 51 to 80 per cent of Canada's total exports. It is to be recalled that these figures apply to classes of goods that Canada does

TABLE 8. THE INCREASING ACTUAL AND POTENTIAL COMPLEMENTARY TRADE OF CANADA AND THE UNITED STATES

	1900	1913	1925	1930
Percentages of Canada's total world exports represented by				
Actual exports to the United States .....	.. .93	90	50	41
Maximized exports to the United States .....	.51	69	57	80

sell and that the United States not only actually buys from her, but also could buy from Canada if purchases of each class of goods were made "first" from Canada. It is true, of course, that the specific commodities the United States wants are not always of that kind and quality that Canada is able to provide. Substitutes would have to be accepted in this process of maximizing Canadian-United States trade.

We next turn to a somewhat similar comparison, what the actual and maximum exports of Canada to the United States are in relation to total world imports of the United States. In Table 9 are given the total world imports of the United States and the percentages of these imports that are represented by our actual and maximized *imports* from Canada. These imports of the United States, actual and potential, are *exports* of Canada to the United States as they were given in Table 7.

TABLE 9. WHAT THE UNITED STATES ACTUALLY IMPORTS FROM CANADA AND WHAT IT COULD IMPORT, COMPARED WITH THE UNITED STATES' TOTAL WORLD IMPORTS
(In millions of dollars)

	1900	1913	1925	1930
United States' total world imports .....	.. 850	1793	4227	2918
Percentages represented by				
Actual imports from Canada	6	8	10	16
Maximum imports from Canada	10	14	14	32

Because of the much greater size of United States trade, the import shares obtained from Canada are smaller as percentages, but the share of total imports secured from Canada has increased from 6 to 16 per cent and the share that could be obtained from Canada, if we maximized the trade, has increased from 10 to 32 per cent.

The figures analyzed in Tables 6-9 covered Canadian exports sold to the United States. In Tables 10-13 in a like way the case is reviewed for Canadian *imports* that are *bought* from the United States. With these tables there will have been covered the total complementary trade of our two countries—Canada's exports to the United States and Canada's imports from the United States.

Table 10 presents a list of leading Canadian imports of goods for four different years since 1900. The list covers goods that are exported by the United States. Thus in the case of the first class of commodities, iron and steel products, Canada in 1939 imported from all sources \$97,000,000 and this entire amount could have been secured in the United States. As a matter of fact Canada does secure the greatest share of her iron and steel imports and her imports as well of petroleum products, automobile parts, coal, and coke from the United States.

The total of Canada's imports that could be secured from the United States is shown at the bottom of Table 10 to have increased from 149 million dollars in 1900 to 607 million dollars in 1939.

TABLE 10. CANADIAN IMPORTS OF GOODS EXPORTED BY THE
UNITED STATES IN SELECTED YEARS
(In millions of dollars.)

Commodity	Canadian Imports of Classes of Goods Exported by the United States*			
	1900	1913	1925	1939
Iron and steel products	27	121	87	97
Petroleum products .....	.....	14	38	56
Automobile parts, etc. ....	.....	10	32	39
Coal and coke	12	43	67	39
Chemicals	4	19	19	31
Cotton	7	38	59	28
Fruits and nuts	3	10	30	24
Agricultural implements	2	14	16	18
Grain (corn, etc.) .....	.....	12	15	15
Books, etc.	2	6	12	15
Electrical apparatus .....	.....	9	16	13
Sugar	4	4	40	13
Rubber products	3	11	14	12
Vegetable oils	1	3	7	10
Wood products	5	25	17	9
Paper products	1	8	9	8
Leather and hides	6	23	16	8
Silk manufactures .....	.....	2	18	7
Glass products	1	4	7	7
Miscellaneous	19	70	67	36
"All other"	52	155	132	122
Total value of Canadian imports that the United States could supply (or total maximum complementary imports of Canada of goods obtainable from the United States) ...	149	601	718	607

*The amounts are those that Canada could take from the United States, although in the past Canada may have purchased them from other countries as well.

In Table 11 there is given a comparison of Canada's total imports with her actual imports from the United States and the maximized amount of her total imports that Canada could secure from the United States.

The extremely large amounts of total imports that Canada does secure from the United States (line 2) and that Canada could secure from the United States are, of course, the result of the like wants our two peoples have. In fact Canada is actually buying from the United States two-thirds of all that could be bought, thus indicating that goods the United States produces and wants are also wanted in Canada.

The percentages of (1) Canada's actual imports from the United States and (2) the amounts that could be secured from the United States in comparison with Canada's total imports are given in Table 12.

The figures shown in Table 12 reveal the fact that Canada has se-

TABLE 11. WHAT CANADA ACTUALLY IMPORTS FROM THE UNITED STATES AND WHAT IT COULD IMPORT, COMPARED WITH CANADA'S TOTAL IMPORTS
(In millions of dollars)

	1900	1913	1925	1939
Canada's total world imports	173	670	797	658
Actual imports of Canada from the United States...110		456	510	412
Total imports that Canada <i>could</i> buy from the United States (from Table 10)	149	601	718	607

TABLE 12. THE INCREASING ACTUAL AND POTENTIAL IMPORTS OF CANADA FROM THE UNITED STATES

	1900	1913	1925	1939
Percentages of Canada's total imports represented by				
Actual imports from the United States..... .64		65	64	63
Potential or maximized imports from the United States	86	90	90	92

TABLE 13. WHAT THE UNITED STATES ACTUALLY EXPORTS TO CANADA AND MAXIMIZED EXPORTS, COMPARED WITH TOTAL CANADIAN IMPORTS
(In millions of dollars)

	1900	1913	1925	1939
United States total exports	1971	2448	4819	3123
Percentages represented by				
Actual purchases of Canada from the United States	8	18	11	13
Maximized purchases that Canada could make in the United States	11	25	15	19

cured from the United States more than 60 per cent of her total imports and that this share could be maximized to 90 per cent. Finally in Table 13 a comparison is given of United States actual and potential exports to Canada in percentages to the total imports of Canada.

In 1939 Canada's actual imports from the United States represented slightly more than one-eighth of United States total exports to the world. This share is smaller than the share of these Canadian imports to total Canadian imports because while Canada actually secures from the United States five-eighths of her total imports, the United States exports in very large amounts to many countries other than Canada. Nevertheless Canada usually vies for first place as a result of her regular large amount of imports from the United States.

Desirable Complementary Trade Policy of Canada and the United States

What has been called the complementary trade of our two countries has now been reviewed. There has been presented a list of goods which Canada exports and which the United States imports and another list of goods which the United States exports and which Canada imports. The trade in these major classes of commodities has also been analyzed to show what has been called the "maximum" or "maximized" trade our two countries could carry on with each other.

This analysis, it should be reiterated, has been made not with the thought that our two countries will find it desirable or should try to maximize their trade. Rather the analysis has been made to show in the next section the "residual" amounts of trade we carry on with the rest of the world. That trade with the rest of the world is immensely important to both of our countries. It is the remaining exports and imports both of our countries would still have with the rest of the world even if we first should buy from each other to the very limit we have shown we could do. Consequently in the next section, which analyzes what is called our "competitive" trade, the very minimum amount of trade both our countries want to carry on with the rest of the world is given. This is so because the figures have been arrived at on the basis of our having maximized our trade with each other.

For the simple reason that neither of us would want to labor to so maximize the trade of our two countries, it is not proposed that "we should buy first from each other." The reader, therefore, will be correct in his assumption that we will want to carry on an even larger like trade with the rest of the world. Nevertheless minimum desirable amounts, as they are given, are well worth knowing.

The Competitive Trade of Canada and the United States

We turn now to consider the remaining amounts of the trade of each country that we both would want to carry on with the rest of the world. This we call our "competitive" trade. Were Canada's exports to the United States made as large as they conceivably could be, Canada would still have a large trade to carry on with the rest of the world. This trade is made up of the "net" exports given next in Table 14. It is for these goods that the rest of the world has been Canada's best market in the past.

TABLE 14. "NET" EXPORTS OF CANADA AFTER MAXIMIZING
EXPORTS TO THE UNITED STATES
(In millions of dollars.)

Commodity	1900	1913	1925	1939
Grain products (very largely wheat)	10	93	347	110
Agricultural implements	2	6	8	3
Meats and animals	20	..	34	8
Dairy products	23	10	14	5
Fish	4	..	..	4
Automobiles and parts .....	..	..	30	24
Electrical apparatus .....	..	..	..	2
Copper and its products .....	..	..	..	10
Lead and its products .....	..	..	..	2
Nickel and its products .....	..	..	2	8
Asbestos .....	..	..	6	4
Brass .....	..	..	..	3
Alcoholic beverages .....	..	..	16	..
Coal and coke .....	..	2	..	..
Wood and wood products	12	..	..	..
Total	80	111	457	183

The most striking single figure in Table 14, the reader will perceive, is that for Canada's great export of grain products, largely wheat, of course. In 1925 this "net" export, practically entirely to northwestern Europe, including Britain, amounted to no less than \$347,000,000! In 1939 this export had fallen to only \$110,000,000. Both the number of bushels and the price fell. The net exports of automobiles of \$24,000,000 held second place in the list of Canada's net exports to the rest of the world.

It is this great importance to Canada of wheat and automobile exports that explains why the proposals later advanced in Part III and Part IV are illustrated and specifically given in terms of wheat and automobiles. Wheat is normally one of the agricultural exports in which the United States also has a great interest, for its net export in 1925 was no

less than \$337,000,000 and \$85,000,000 in 1930, or not far from that of Canada in each year. Automobiles in normal times are one of our three leading export items. Here we see two of our great common problems which we should try to solve together.

Figures for the principal net *imports* of Canada are given in Table 15. The most important of these are wool and woolens, and coffee and tea. Although Canada could obtain almost all needed imports from the United States, the export of wheat is essential to pay for the goods she would like to buy, and the goods she has bought in the past, regardless of where they may be bought.

The trade of Canada and the United States with each other has been reviewed. The remaining net exports and imports of Canada with the rest of the world have also been presented. The net exports of the United States to the rest of the world that fall in the same classes in which those for Canada have been shown are given in Table 16.

The upper section of Table 16 lists in the first column of figures the amounts of Canada's net exports for 1939 (carried forward from Table 14 final column). Next to these are given the amounts of the United States' net exports of these same commodities. This yields in the final column the combined net exports of our two countries to the rest of the world. These have been termed our competitive exports.

In the lower section of Table 16 are given in the first two lines the products which Canada exports but of which the United States has no export. These two are nickel and asbestos. Of these the United States is able to buy \$42,000,000 and \$10,000,000, respectively. Canada's production of these two items, however, exceeds the amounts the United States could take by \$4,000,000 and \$8,000,000, respectively, as indicated in the table.

In the lower section of Table 16 is also given the list of goods, not exported by Canada, but which the United States desires to export to the rest of the world. The largest of these are iron and steel products, petroleum products, and cotton. Since the joint problems of Canada and the United States define our area of interest in this inquiry, the problems of these "non-competitive" exports are not further considered.

Reverting to the upper half of Table 16 we observe that our greatest so-called competitive exports are automobiles, grains and their products, and copper. Considering Canada's smaller population, wheat is of immense, if not overwhelming, interest to her. Because of the immense importance of the automobile industry in the United States that export, and the export of all other machine industries and machine-product industries, is of great, if not overwhelming, interest in the United States.

TABLE 15. "NET" IMPORTS OF CANADA AFTER MAXIMIZING
IMPORTS FROM THE UNITED STATES
(In millions of dollars.)

	1900	1913	1925	1939
Sugar	5	16	2	7
Coffee and tea	4	..	11	11
Alcoholic beverages		3	19	6
Vegetable fibers . . . . .		..	2	5
Wool and woolens	9	28	42	19
Tin	2	7	1	3
Silk	3	7	1	..
Nickel . . . . .	..	..	1	..
Glass products		1	..	..
"All other"	1	7	..	..
Total	24	69	79	51

TABLE 16 COMPETITIVE NET EXPORTS OF CANADA AND THE UNITED STATES IN 1939
(In millions of dollars)

	1939		
	Canada	United States	Combined
Competitive exports			
Grains and products (largely wheat)	110	85	195
Agricultural implements	3	51	54
Meats and animals	8	31	39
Dairy products	5	7	12
Fish	4	12	16
Automobiles and parts	24	215	239
Electrical apparatus	2	92	94
Copper	10	96	106
Lead	2	8	8
Brass	3	7	10
Total	171	602	773
Noncompetitive exports (principal items only for the United States)			
Nickel	4	..	..
Asbestos	8	..	..
Cotton		283	283
Fruits and nuts		57	57
Wood products		60	60
Rubber products		27	27
Iron and steel and products		680	680
Coal and coke		28	28
Petroleum products		329	329
Chemicals		99	99
Tobacco		90	90
Miscellaneous		261	261
Total	188	2516	

Allowing for population differences, the automobile export problem also is of almost equal interest to Canada.

Finally, in Table 17 are presented, in similar form to Table 16, the competitive *net* imports of Canada and the United States. Here the application of the word "competitive" grows out of the fact that both countries may be said to compete in *buying* in foreign markets. Canada's imports, like ours from abroad, include coffee and tea, sugar, vegetable

TABLE 17 COMPETITIVE NET IMPORTS OF CANADA AND THE UNITED STATES IN 1939
(In millions of dollars)

	1939		
	Canada	United States	Combined
Competitive imports			
Sugar	7	133	140
Coffee and tea	11	161	172
Alcoholic beverages	6	43	49
Vegetable fibers	5	82	87
Wool and woolens	19	74	93
Tin	3	131	134
Total	51	624	675
Noncompetitive imports (principal items only for the United States)			
Fruits and nuts		44	
Vegetable oils		57	
Rubber		166	
Leather and hides		53	
Cotton products		45	
Silk		130	
Petroleum		43	
Chemicals		57	
Tobacco		36	
"All other"		320	
Total	51	1575	

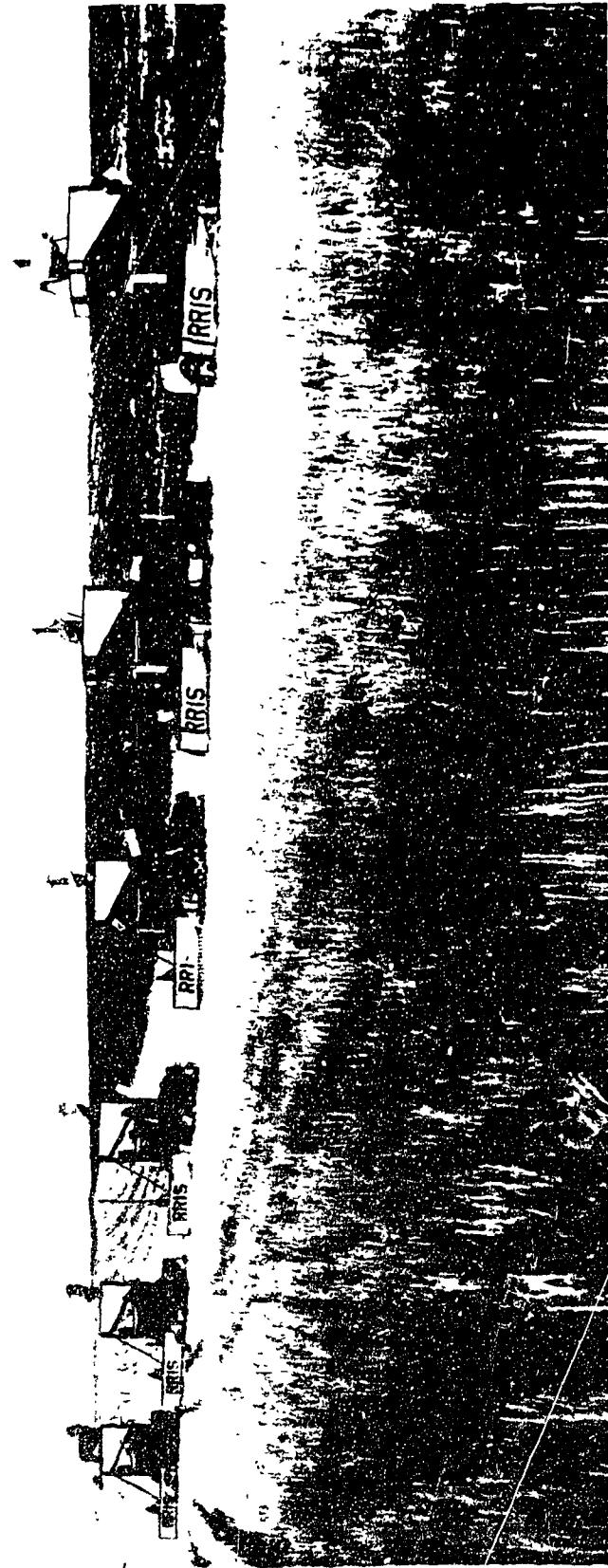
fibers (other than cotton), wool and woolens, tin, and alcoholic beverages. In addition the United States imports a group of non-competitive imports, a good many of which are ultimately consumed in Canada. These are listed in the lower half of Table 17.

This survey of the international trade relations of Canada and the United States with each other and both with the rest of the world completes the presentation of the highlights of the trade of our two countries. The remaining sections suggest principles for postwar settlements that take our interest into account in the proposals of policies:



Photographs by courtesy of the Department of Trade and Commerce, Canada

CEREALS CAN BE MOST EFFICIENTLY PRODUCED ON PRAIRIE SOIL WITH MECHANICAL EQUIPMENT



1. To improve our agricultural trade with Europe and to benefit the position of both industry and agriculture in Europe (Part III).
2. To improve an important part of the industries of Canada and the United States and as a result of that improvement to benefit the agriculture of our two countries. The proposal made advances a general principle which is recommended for the consideration of other industrial countries for a like improvement in their position and in the position of newer world areas initiating an industrialization (Part IV).
3. To improve the position of the two agricultural economies of the Prairie Provinces and the Central Northwest States of the United States (Part V).

III

Canada, the United States, and the Postwar Reorganization of Western European Agriculture

Summary of Principle

In this section a principle will be advanced for the consideration of those who will make such postwar settlements as apply to agriculture. What is proposed is that Canada, the United States, and Britain, with the cooperation of Russia and in concert with the countries of Western Europe, shall make arrangements whereby all of the Western European countries, including Britain, will undertake within a specified period, perhaps fifteen years, to receive certain agricultural products, wheat, pork, and lard, for example, from producing countries in specified maximum amounts, thus releasing agricultural resources of Western Europe for other more profitable uses. The producing countries will assist in the reorganization of European agriculture to permit import into Europe of larger than prewar imports of such agricultural products. The producing countries will also undertake to encourage necessary reductions in their own tariffs to permit the countries of Western Europe to pay for the larger quantities of agricultural products which they shall undertake to accept.

Implementing the Atlantic Charter

The Atlantic Charter presents postwar objectives that have secured the widespread approval of peoples everywhere. To achieve one of its provisions, freedom from want, requires a most drastic reorganization of the agriculture of the countries of Western Europe. Such a reorganization of agriculture, to be sure, will be of immense value in enlarging markets for wheat from Canada, the Argentine, Australia, and the United States, the market for other cereals, the market for United States lard, and in general will enlarge the markets for the agricultural products of efficient surplus-producing agricultural areas wherever they may be, at home or abroad.

In such a gain the agriculture of the Prairie Provinces and the Central United States will certainly very profitably participate, and immeasurably greater benefits will be conferred upon the peoples of Western Europe, even those engaged in agriculture there. The proposal

which is given below is assumed to be one that may also be most appropriately suggested for all other agricultural areas of Canada and the United States as well as for other agricultural countries. In fact, the proposal is made in terms of Prairie Province-Northwest United States agriculture only because that is the area from which we write.

The Recent Record of European Agriculture

A most interesting way in which to value the achievements of agriculture, or any industry for that matter, is the price at which it can produce and sell its product. The prices given in Table 18 are striking evidence, tested by the objectives of the Atlantic Charter, of how unsatisfactorily Western European agriculture has served the peoples of Western Europe in recent peacetime years.

TABLE 18 COMPARISON OF THE PRICE OF WHEAT (JANUARY 1936) IN SURPLUS-PRODUCING COUNTRIES AND DEFICIT, CONSUMING COUNTRIES

Price in Surplus-Producing Countries		Price in Deficit, Consuming Countries	
Country	Dollars per Bushel	Country	Dollars per Bushel
Argentine	93	France . . . . .	.155
Australia	99	Austria . . . . .	.185
Canada	1.91	Czechoslovakia . . . . .	.197
United States	1.06	Germany . . . . .	.229
		Italy . . . . .	.247

Table 18 provides a simple comparison of the price of wheat in dollars per bushel of sixty pounds in nine countries in January 1936. (League of Nations report, "World Production and Prices, 1935-36," page 119.) The date thus selected is midway in the 1930 decade and yet represents prices at a time not subject to the influence of the drought in our two countries in 1936.

If we are correct in assuming that the agriculture of a nation exists to serve the people of that nation the job as it has been done in five Western European deficit, consuming countries is a poor one indeed. Surely it has been the god of war rather than the common man who has been served by the system of European agriculture, which necessitates average wheat prices about double those for wheat in the surplus-producing countries.

Mussolini claimed loudly that he had won the battle of wheat for Italy. That the Italian had to pay \$2.47 a bushel for wheat when farmers in the Argentine, Australia, Canada, and the United States were

glad to sell it for about one dollar a bushel was scarcely whispered. Nor has anyone claimed that self-sufficiency in wheat is a desirable basic stone in any structure to be built to secure a sound and prosperous peace.

In fact, it could be added that during much of the period of the 1930's wheat was available at much lower prices even than those indicated above, although the United States and Canada by 1936 had had considerable drought experience which had worked toward raising their price of wheat.

There are those, it is true, who sometimes assert that the United States logically should be an importer of *Canadian* wheat. This argument can be squarely met on the reasoning they advance in making such a claim. Their claim is founded upon the fact, about which there is no question, that at times the United States has made internal arrangements resulting in a higher price of wheat than prevailed in Canada. But, who in the exercise of a best possible judgment would say that the United States should have taken wheat from Canada because it could have been obtained there for a nickel or a dime cheaper than from farmers within our own country when at the same time European prices ranged from \$1.55 a bushel to \$2.47 a bushel?

We can only conclude that it is the single great agricultural-deficit area of the world — the countries of Western Europe — which should purchase wheat from the United States as well as from the Argentine, Australia, and Canada. Trade between two countries now producing a surplus may become desirable in the more distant future. Trade between all surplus-producing countries *and* the great consuming areas (that are "deficit" areas in their production) can be far more profitable to each.

Finally, if these countries purchased our wheat, as they could do to their great advantage, there can be little question that the price of wheat in the producing countries would tend to be not only a satisfactory price but nearly the same price in all of such producing countries. This is so because, in terms of the prices that have been given above, Italy, Germany, and Czechoslovakia — not to mention Austria and France, which have fairly efficient sources of wheat — would want such a quantity of wheat as probably would mean that the Argentine, Australia, Canada, and the United States could sell all the wheat they would want to sell not just at \$1.06 a bushel but perhaps at \$1.16 or \$1.26. But even such a draft upon the producing countries would provide Western Europe with far cheaper wheat than it has known for ten years past.

The Cost of the World's Wheat Policies

Whatever the cost of "national management of wheat" may have been in Canada, the cost of assistance to agriculture generally in the United States has for some years been high and until the outbreak of the war had been increasing.

According to the *Statistical Abstract of the United States, 1941* (p. 706) "government payments" to agriculture for the years 1933 to 1940 inclusive were no less than \$3,859,000,000! The annual payments, in fact, rose from \$131,000,000 in 1933 to \$766,000,000 in 1940. A considerable part of these payments to agriculture were made to the wheat growers of the United States. Neither wheat growers, cotton growers, nor any other group of people in the United States like this kind of arrangement. But its fundamental cause — and this is doubly certain in the case of wheat — was the choking-off of European markets in the 1930's as a result of the depression and the measures of agricultural protection that were adopted.

Turning to Europe (see Table 19) we find that for Germany, France, and Italy the cost of their drives for self-sufficiency in wheat (in all three countries) and in barley and pork in Germany, was no less than \$1,517,000,000 in the single year 1936, for which wheat prices are given

TABLE 19 COST OF SELF-SUFFICIENCY IN THREE EUROPEAN COUNTRIES
FOR SELECTED COMMODITIES, 1936*
(Based on prices given in Table 18.)

	Total Cost Domestic Production	Total Cost if Obtained from Foreign Sources	Cost of Self- Sufficiency
Germany			
Barley	\$ 232,000,000	\$ 94,000,000	\$ 138,000,000
Wheat	366,000,000	186,000,000	180,000,000
Pork	1,139,000,000	556,000,000	583,000,000
France			
Wheat	628,000,000	290,000,000	338,000,000
Italy			
Wheat	533,000,000	255,000,000	278,000,000
Total	\$2,898,000,000	\$1,381,000,000	
Total cost of self-sufficiency	....	....	\$1,517,000,000

*These figures are based on the assumption that these countries obtain their entire requirements from sources in North America. They are based also on the particular exchange relationship prevailing in 1936 between the currencies of the above countries and the United States. No allowance was made for transportation charges. On the other hand, in the case of some of the above, consumption in 1936 was lower than in 1929, suggesting that part of the cost of self-sufficiency was a shift to substitutes or a decline in the standard of living.

in Table 18. This estimate is based upon a comparison of the excess of the total cost of domestic production over the total cost had these three countries purchased either from abroad or at home at prices prevailing in the world market. Now it can, of course, be reasoned that had these countries purchased barley, wheat, and pork from the world's great producers the price in the producing countries would have been somewhat higher. The producers of wheat in Canada and the United States would certainly not have objected to this outcome, and if Germany, France, and Italy could have saved (on these commodities) only a billion dollars a year instead of a billion and a half, they could scarcely have had a valid objection either.

The Gordian Knot To Be Cut to Achieve Cheaper Food in Western Europe and Better Markets for Export Agricultures of the World

Those responsible for the postwar settlements concerning agriculture must reckon with these facts or face the alternatives—continuation of non-economic production in Europe and undesirable agricultural policies at home, neither of which appears to be consistent with achieving the kind of world we want.

Certainly freedom from want in Western Europe generally can be promoted by providing cheaper food for the peoples of Western Europe. That this great gain will benefit wheat producers in the Argentine, Australia, Canada, and the United States does not subtract from its desirability. Some of the gains that a solution to the problem would secure are advanced in the remaining sections below. It may well be that there can be differences of opinion as to how this Gordian Knot is to be cut for the benefit of peoples in Europe and elsewhere. But the goal to be achieved must be kept before us even though other means may be used.

Efficient Wheat Production

Professor E. H. Carr, in his recent book *The Conditions of Peace*, has emphasized that there can be no question but that cereal production in the world can be most efficiently carried on under those conditions that utilize prairie soils and mechanical equipment. The prairie soils are, of course, generally rich soils and are essential to the use of modern mechanical planting and harvesting machinery. It is not difficult for a single well-equipped wheat farmer in any of the four great surplus-producing countries to produce as much as two thousand bushels of wheat. This would require only a twenty-bushel yield from one hundred acres. In Europe, in contrast, much wheat is produced on small

farms lacking both the ability and the means to use modern, efficient equipment. There no doubt are many farms in the wheat-growing areas of Western Europe that do not produce even four hundred bushels of wheat per farmer engaged in wheat production. In the producing countries of Western Europe farms of such a size, with two exceptions to be dealt with below, are rare indeed.

Professor Carr, however, implied difficulties standing in the way of reorganizing much of the agriculture devoted to cereal production on farms in Western Europe. The farmers on these farms are farmers as truly as our own and naturally they want their sources of economic livelihood protected just as is the case elsewhere. Consequently there are great difficulties to be faced in proposing some reorganization of Western European cereal-growing that would redound to the benefit of the farms of Western Europe as well as to the benefit of the efficient prairie areas.

Historical Examples of the Reorganization of Agriculture

Those in Canada and the United States who have observed the steady westward migration of wheat-growing are well aware of how agricultural areas have been reorganized. Minnesota was at one time the greatest wheat-producing state in the United States. That time has passed and in its passing annual wheat production in Minnesota has declined from eighty million bushels to less than twenty million bushels. Surely either some satisfactory alternative filled the vacuum when wheat-growing was abandoned or the alternative was so profitable as to force out wheat production. That alternative is, of course, well known to all residents of Western Canada and Central Northwest United States. The alternative bears the names "mixed farming" and "diversified farming." It can also be pointed out that Denmark, a European nation with the disadvantage of a poor, sandy coastal plain not unlike that which prevails in Northern Germany, found in the new kind of farming a way to improve greatly the lot of her people formerly engaged in cereal agriculture.

But "mixed" or "diversified" farming was not undertaken for its own sake or merely for the insurance-like protection implied in the words. Rather, as we shall show, a definite adjustment was made to a more profitable agriculture. In Minnesota, that profit was found in very largest part in the production of all kinds of animal products. In fact, it is quite possible that the concentration in production of animal products — meat, dairy products including milk and butter, and poultry products — is fully as marked as it ever was in wheat or cereals as such.

*The Positive Improvement of Western European Agriculture
To Be Achieved with the Abandonment of
Intensified Cereal Agriculture*

What is proposed for the countries of Western Europe is that simultaneously as they undertake to reduce their dependence on home-grown wheat and import it in larger amounts from the surplus-producing areas they too shall find a most profitable alternative in turning to the new kinds of farming that would be most appropriate for them.

The great success of what has been called mixed and diversified farming is not based in largest part upon the fact that lines of agriculture are mixed or diversified. Rather what has been done, although it is not frequently viewed in this way, is that agriculture when diversified has turned to new lines of production that hold by far the greatest promise of profitability for agriculture. It is well known that as the income of a people rises their choice of foods becomes more varied. For example, in the United States in the middle of the 1890's when the country was far less urbanized and the people therefore in large part lived and worked out of doors, the consumption of wheat was about 6.4 bushels per capita. By the end of the 1930's this consumption had fallen to 3.8 bushels of wheat per capita. It is not at all difficult to list the new foods which people in Canada and the United States have consumed as they have enjoyed rising incomes over the last two generations. They have purchased immensely larger quantities, both per capita and in total, of meat (not salt pork, to be sure); dairy products, including especially butter and cheese; poultry products, including especially eggs; vegetables of many kinds, both fresh and canned; and fresh and canned fruits — to name the main classes. In fact, in 1920 in Canada 10,976 million pounds of milk were produced, but in 1940 total Canadian production was no less than 16,933 million pounds. Similarly, in the United States milk production in 1924 was 89,200 million pounds and in 1940 was 109,500 million pounds. Cheese production in Canada in 1921 was 1,647,090 pounds and in 1940 was 148,123,000 pounds.

In fact, the pattern that consumption takes, given a higher level of income, is one on which there is now practically complete agreement. Carl Major Wright in his book, *Economic Adaptation to a Changing World Market*, has given the result of studies of workers' food budgets in a number of cities in Western Europe. Two of these are selected for presentation in Table 20 below, which shows how German workers in 1927-28 were disposed to spend for food if they received higher incomes and adopted a consumption pattern comparable to that of those workers who already enjoyed the higher income.

TABLE 20. HOW WORKERS IN GERMANY IN 1927-28 WOULD HAVE DISPOSED OF THE FOOD SHARE OF THEIR BUDGET IF THEY HAD HAD HIGHER INCOMES

Change in Quantity Taken with Rise in Income	Food Product
German workers would take less of	{ Margarine Rye bread
German workers would take more, but not wholly in proportion to the rise in income, of	{ Flour Potatoes Sugar
German workers would take more, and in greater proportion than their rise in income, of	{ Wheat bread Meat Milk Vegetables Eggs Butter Fruits

When an economist speaks of the changes that take place in an individual's purchasing habits as a result of changes in the amount of his income, he uses the more or less technical term "income elasticity of demand." But such a term need not be used, for everyone knows that people having higher incomes will buy more meat, butter, milk, and eggs and less wheat, rye, and potatoes. In fact, it can be said that the United States is rationing meat far more because incomes have risen and consequently so much more would be bought were it available, than because of the quantities that are going to be exported to our allies under lend-lease and to troops abroad (recently estimated at 5 per cent and 1 per cent of total production, respectively, but still more recently reported rising from these levels).

German Consumption of Agricultural Foods in 1927 and 1937

The brief table given above tells us how German workers would have liked to have disposed of their outlays for food, as they enjoyed rising incomes. Now it happens that from 1927 to 1937 Germany did have a rising real income available to her people. This has been calculated at about 25 per cent by Professor Otto Nathan, who in a recent article (*Quarterly Journal of Economics*, May 1942, pp. 349-84) also gave the consumption in working-class families of various food products. It is most interesting to notice that from 1927 to 1937 workingmen increased their consumption of some agricultural food products and decreased it of others. The classes of foods that fell into each of these two groups are indicated in Table 21.

To be sure, in this decade German workingmen did consume, in accordance with expectation, slightly more margarine as well as the to-be-expected somewhat more butter. The butter consumption, however, was only about one-half the butter *substitute* consumption. But apart from the enlarged consumption of butter, there was an increase in consumption of rye and rye bread and potatoes — certainly not the items that we should expect would be bought in light of the rise in incomes of the working classes.

TABLE 21. YEARLY FOOD CONSUMPTION OF AN AVERAGE WORKING FAMILY IN GERMANY IN 1927 AND 1937

Foods That German Workingmen's Families Consumed More of			Foods That German Workingmen's Families Consumed Less of		
Agricultural Food	Consumption Average (in pounds)		Agricultural Food	Consumption Average (in pounds)	
	1927	1937		1927	1937
Rye flour and bread . . .	665	795	White and whole wheat bread	121	68
Bread and baked goods . . .	735	788	Meat and meat products, including bacon	363	306
Potatoes . . .	1099	1144	Milk (quarts) . . .	452	388
Butter	35	14	Eggs (number) . . .	104	237
Margarine and vegetable fats and oils . . .	79	81	Vegetables . . .	258	241
			Tropical fruit	21	13

This enlarged consumption of potatoes and rye was forced upon the German people in the interests of self-sufficiency for war. Its cost was the reduced consumption by the German workingman in 1937 of the very things we know he wanted more of, not less. This reduced consumption prevailed in the case of wheat, meat, milk, eggs, vegetables, and fruits. These last named commodities are the very commodities which the German workingman, were he economically free, would have bought in larger amounts. But certainly, if self-sufficiency in wartime is the object, then the German workingman must eat the wheat himself rather than feed it to the German chickens so that they can lay the eggs which he would prefer to eat. Also, the German workingman must eat very considerably more potatoes and supplement them with rye bread, or vice versa, instead of using cereal and root crops to produce meat, bacon, and milk which he likewise would undoubtedly choose in preference.

What Germany and Western Europe Should Produce in Greater Amounts

Whether or not the figurative goals of freedom from want or "a quart of milk for all" can be rather universally achieved, those goals certainly should be obtainable in the countries of Western Europe. This is, to be sure, only an indirect way of saying that the countries of Western Europe should produce more milk, butter, cheese, eggs, meat, fruits, and vegetables and less wheat, pork, barley, and lard.

Nor are these suggestions designed wholly in the interest of agriculture in the Prairie Provinces and Central Northwest United States. In fact, the countries of Europe for the longer run of years ahead are very well advised to change over increasingly their production from cereals to the broad class of foods called "protective." It is rather in the United States and Canada that proper consideration in the long run must be given to whether or not too much emphasis is placed upon wheat, barley, and lard, for example. But in light of the very extensive land resources available to Western North American farmers and in light of the large amount of capital with which they work, there can be no question but that their greater relative efficiency is now substantially in the products they now produce.

What is still more important is that, even if the countries of Western Europe should diminish their cereal production to a price-competitive basis, the quantity of wheat, barley, and perhaps lard that they would be required to import from the Western Hemisphere still would far surpass their imports of these products in any previous year for which the record is available. There can be little doubt, provided conditions of peace and progress are assumed, that with the large human resources per acre of land in Western Europe an adjustment of agriculture from cereal growing to other lines will result in the longer run in profit to all. If those countries, however, are to be dominated by a war philosophy, the old pattern will be their preferred pattern.

What has been said with respect to the countries in the western half of the European continent must be expanded to include Britain and Russia. In the case of Britain, a normal production of 48 million bushels of home-grown wheat prevailed before the war. By design Britain proposed to increase this production to 64 million bushels. One of the world's eminent food authorities has said that if peace were assured, it would make little sense for Britain to produce any wheat at all. Nevertheless, we can readily appreciate her greater need for wheat production under threat of war.

What we ourselves must realize is the extent to which our interests

are the same as Britain's. Two terrible wars furnish the evidence, and so, not only must there be the reorganization of the agriculture of Western Europe to reduce the constant threat of war from that quarter, but arrangements for achieving a durable and lasting peace must take cognizance of securing for Britain, with the support of the United States and Canada, that position which will permit her to rearrange her agriculture also.

The question may well be asked, What of Russia? There are two facts that indicate that there is not apt to be a flood of foodstuffs from Russia in the visible future. The first fact is that in the period between the wars Russia evidenced an interest in exporting wheat only if such export were necessary as a means to pay for the capital machinery and equipment Russia wanted. It has certainly been most fortunate that Russia was prepared to export wheat at times (and lumber and coal) to secure the fundamental necessities for an industrial economy. Those fundamental supplies underlie the great strength that Russia has shown to the world in the present great struggle. In other words, a price was paid by Russia for such wheat export as she has at any time in recent years attempted. That price was a reduced diet for her own people — a reduction they accepted to build up their industrial economy.

The second Russian development indicating that there may not in the future be a great desire by Russia to export wheat is the rate of her own population growth. The Russian population is growing rapidly. It is becoming urbanized and industrialized. The urbanization and industrialization create a steadily growing demand for the products of Russian agriculture, that is, agricultural foods, the basis of industrialization and urbanization. Few would urge or expect a further expansion of Russia's agricultural production. Russia herself — and most others would agree she should — desires to expand her industrial economy. That expansion will subtract from agricultural workers and add to the number of mouths to be fed by her agriculture in the future.

Conclusion

What has been proposed is that those charged with making all agreements which collectively become the peace settlement following the present world war should consider the goals that have been advanced above. If the objectives are in error, that error should be uncovered. If the proposal itself is accepted in principle, the means to implement it must be secured. It is only too well realized that implementation will mean a most difficult job for those undertaking that implementation. But certainly two costly world wars, costly in human lives and aspira-

tions as well as in material destruction, testify to the need for accomplishing such hard tasks.

A final point is of the utmost importance. It is that the fundamental change proposed, winning, ~~as it will, markets~~ in Europe for greatly enlarged quantities of wheat and barley, pork and lard, not to mention other products, will be of great benefit to the agriculture of the Prairie Provinces and the Central Northwest States of the United States. Similar arrangements covering the exportable agricultural produce of other areas are likewise contemplated.

Thus far the proposal wins markets for our agriculture, but it wins only theoretical markets. The question is rightfully asked, How can Europe make repayment for the enlarged purchases it is expected to undertake? The answer on the part of the Prairie Provinces and the Central Northwest States is that the prospect of securing such enlarged markets for the farmers of the Northwest will win from them their support to assist in the reorganization of European agriculture and, what is certainly more important, will secure from them agreement to help bring about such changes in the trade position of their own countries as will permit increased sale by European countries of their goods to the United States and Canada. In this way European countries can secure the means to pay for products purchased. It will be clearly seen that tariff reduction is a necessary step to secure payment for our exports and can lead to enlarging trade. Such tariff reduction can apply to many "light" products and handicraft products that are special features of European production.

IV

A Proposal for the Rearrangement of the Automobile Industry of Canada and the United States after the War

In Part III a proposal was advanced for the adjustment of the post-war agriculture of Europe in relation to that of the agricultural, food-producing countries of the world — not only of Canada and the United States, but also of the Argentine and Australia.

In this section a specific proposal is advanced that is intended to increase industrial employment in Canada and the United States, and, as has been explained, thereby expand the market for our agricultural products. This proposal is stated in terms of the automobile industry that has developed on both sides of our common boundary, the Great Lakes. We hope the principle can be applied to other industries and between other countries.

We may observe, for the benefit of those who may inquire as to why specific proposals are made with respect to wheat (and pork and lard) and automobiles, that wheat and automobiles are in first and second place as "net exports" of Canada (see Part II). They are also very important exports of the United States.

While this proposal relates only to one industry for our two countries, the principles underlying it are recommended for consideration in all postwar settlements intended likewise to improve the industries of all countries now possessing large industries or contemplating, as many newer countries of the world surely will do, a greater industrialization in their economies.

The Development of the Automobile Industry in the Great Lakes Area of the North American Continent

The automobile industry of the North American continent initially developed in the area of the United States immediately adjacent to the Great Lakes. In due course the establishment of tariffs nurtured an automobile industry in Canada. That automobile industry was very largely a series of branch factories of the automobile companies of the United States. This illustrates the fact that when products cannot surmount a tariff wall the industry itself is built up on the other side of the tariff wall.

As a result Ford cars in the United States are Ford cars in Canada; the Chevrolet is well known in both of our countries; and Buick is now Buick to the people of Canada and the United States.

This branch factory system in the case of automobiles was widely extended in Canada so that there were produced in Canada most of the automobiles by name that were produced in the United States. Moreover, the Canadian industry also manufactures much of the content of the Canadian cars. As a result of the making of a great many kinds of cars in Canada and making most of what went into them, the Canadian factories experienced higher cost levels. This, however, did not prevent the growth of the industry in Canada because it was protected by tariff. Nevertheless, although automobiles were produced in Canada in types wholly comparable to those available in the United States, there was one marked difference. That was that automobiles in Canada cost about \$250 more each than did a like product in the United States.

With the great interest all democratic nations have had in securing for their people maximum employment in useful civilian occupations, the maintenance of the automobile industry in Canada was naturally widely accepted in all parts of the Dominion. The problem that is presented to improve the industry, employment in it, and the prices both of our peoples pay for cars is one well worth the attention of both countries for the postwar period.

The Situation during War

As is so well and widely known, the entire automobile industry of Canada and the United States has gone completely to war. No automobiles are manufactured in either country for normal civilian use. As a result of (1) complete dedication of this industry and its workers to war and (2) the common managements or close relations between the managements in the industry on both sides of the border, an unusual opportunity will be offered when the war ends to improve the future position of the industry in the Great Lakes area of North America.

The Rearrangement of the Automobile Industries of the United States and Canada

The automobile industry, from the point of view of its postwar output when it can again produce products for welfare instead of warfare, in both of our countries has been badly scrambled up during the war. That scrambling process, so to speak, is evidenced, if in no other way, by the vast amount of tools now stored in grease inside of factories and

outside of factories under covering from the weather. What kind of proposal can be made to reorganize the industry so that it will maintain a high volume of employment in both of our countries after the war and provide our consumers with far cheaper or better cars?

We propose that our governments, with the aid of mutually helpful agreements promoted by them, shall request the operators of our joint automobile industry to redesign sensibly the basis upon which the industry on both sides of the Great Lakes shall build up its postwar production. The sensible way in which this might be done by the joint managers of that industry upon such a request by our governments would be so to organize the industry as to achieve benefits for our people in both countries either working in the industry or buying its products.

The Proposal

Common sense suggests that the automobile industry should, after the war, be so organized in its several parts on *both* sides of the Great Lakes that the following objectives are secured for each respective country:

Canada

1. Cars available to Canadians as cheaply as they are available to the people of the United States.
2. Normal employment maintained in the automobile industry in Canada.

United States

1. Enlarged employment resulting from the greater market that will be available in all of North America as a result of the more efficient industry that can prevail after the war.
2. Greater employment that will result from a larger world market when the product of the new Great Lakes automobile industry is available at lower prices in the world markets.

Before turning to consider how these advantages can be secured, it is essential that the general lines of reorganization of the industry be given. While the reorganization would affect primarily the types of automobile products manufactured in Canada more than it would bring about a like change in the United States, it would not affect the productive activity of making automobiles in Canada.

What can in a very general way be proposed is that after the war the joint managers of the automobile industry in both countries should

undertake, under the condition of maintaining for a given period of years past normal levels of employment in the industry in Canada, only those productive processes in Canada which could be carried on with a maintenance of such employment and achieve, item for item produced, the cost levels secured in the United States. This would require that the Canadian scale of operations be so modified that there would be concentration either on certain specific models of cars (rather than upon a diverse range of cars) or concentration in large part upon the manufacture of certain fundamental parts of all cars.

What is proposed, therefore, is that the managers of the industry, undertaking to maintain in Canada past normal levels of employment for a given long-term period of years, should produce only a small number of makes or even of models of cars and that the specific makes or models be subject to free importation in the United States. In the event that the proposal so stated in terms of models or makes of cars should be modified to include only the final assembly process of such makes or models of cars, the additional automobile production of Canada should be concentrated in a limited number of fundamental elements of an automobile which would flow with equal freedom into automobiles finally assembled in the United States as well as the models assembled in Canada.

This is nothing more than saying that the joint managements of the industry would undertake to achieve in those productive operations in each of our countries what is commonly called best, most efficient, or "optimum" size. Such optimum size is simply another way of saying lowest possible cost levels, and, therefore, price levels. The rearrangement of the industry on the Canadian side certainly can yield, with the known highly efficient labor and management available in Canada, a volume of production capable of maintaining past normal levels of employment.

Advantages for Canada

In the case of Canada the advantages are twofold. These two advantages are believed to be the objectives which all Canadians have for this industry, and of course, for others as well. They are that (1) employment opportunities shall be preserved and (2) low costs and low prices be available to the purchasers of the industry's products. Thus were this general proposal made effective, Canada would secure the dual advantages of greatly lowered prices for automobiles and at the same time the maintenance of the former level of employment in the industry.

Advantages for the United States

The United States would secure some degree of improvement in efficiency, and, therefore, lower costs and prices. The degree of such improvement would naturally not be very substantial because the United States has been habituated to producing a large number of automobiles, thereby easily securing relatively low costs. But, although the cost and price reduction in the United States would not be large, it would, nevertheless, apply to a greatly increased number of units. Conversely, in Canada the price reduction could be extremely large per car, but because of Canada's smaller population, it would apply to a smaller number of units.

Advantages to Both Canada and the United States

The new so-called Great Lakes automobile industry would enjoy a larger total volume of production and consequently a larger amount of employment could be divided among workers available to the industry in both of our countries. This is so because the lowered prices in both countries would result in a larger total annual sale and, therefore, production of automobiles.

In addition, with the modification, assented to in principle, of British and other preferential tariffs in world markets for automobiles, both Canada and the United States would further enjoy increased production and sale of automobiles by their entry into world markets without encountering present high tariffs or the entry at preferred tariffs of higher-unit-cost automobiles. Thus, not only would lowered prices result in a larger market in North America, but also in many other world areas.

Amplification of the Proposal to the Benefit of Other Countries

The proposal so briefly outlined above only in very general principles can be recommended for adoption by other nations of the world. We in Canada and the United States, having a great industrial production for each of our countries, can hardly expect that other industrially newer world areas will not attempt with all the vigor they possess to build or enlarge industrial production within their own lands.

In the case of each of our countries, to be sure, we have achieved a great industrialization. But in the process we have made many blunders and mistakes. These are manifest in the derelict and backward industries we both possess. Great assistance could be given other countries by Canada and the United States, and of course by other industrial nations as well, by counseling with the newer countries as to which

— areas of industrialization may profitably and sensibly be developed by them. As a helpful aid, we ourselves, in return for their narrowing the sectors of the industries they propose to build to those that they can expect to maintain efficiently, might well consider those changes in our tariffs which would permit freer import into our own countries of such industrial products. In return less restrictive arrangements might be adopted by such other countries to admit more freely in other sectors the products we can continue to produce most efficiently. In this direction lies one solution to the problem of agricultural surpluses in the Central Northwest United States and in the Prairie Provinces of Canada.

A consideration of the proposal, illustrated here only in terms of a single industry for Canada and the United States, quickly suggests that if it is found feasible it might have wider application. In that way, the objectives that we would undertake to secure for ourselves could also be achieved by many other countries.

The Integration of the Canadian and American Economies in Relation to the Prairie Provinces and Central Northwest United States

A strong argument can be advanced for economically tying together more closely areas so geographically placed as are Canada and the United States. The effects of the economic unification of the German States in the nineteenth century may be cited as an illustration of the economic advantages to be gained from increasing the size of the free trade area. This case is a particular application of the general principle that territorial specialization, permitting regions to produce those commodities which their resources are capable of producing most efficiently, raises the standard of living of all peoples concerned. In another section of this report, certain suggestions are made for the closer industrial integration of the Canadian and American economies. It is here proposed to consider some of the difficulties and possibilities of closer integration with respect to the agricultural segments of the two economies, particularly with reference to those commodities of significance to the Prairie Provinces and the Central Northwest United States.

Some measure of economic integration between the two countries was promoted by the Trade Agreements of 1936 and 1938. In these agreements, Canada and the United States granted to each other "unconditional and unrestricted most-favoured-nation treatment" and provision was made for the reduction of duties on a long list of agricultural products, including cereals, animals and animal products, fruits, and vegetables. As the war has progressed the two economies have become still more closely coordinated industrially and agriculturally. On April 10, 1942, President Roosevelt and Prime Minister King entered into an agreement for the more effective utilization of the agricultural resources of the two countries by providing for the stimulation of the production of oil-bearing products in the United States, and flax, oats, and barley in Canada. It was also agreed that the sale of these products should be facilitated in each country. More recently this agreement was extended by joint arrangement between the Canadian Minister of Agriculture and the Secretary of Agriculture of the United States. Orders have been passed in both countries making it possible to import, free of duty

and under certain conditions, commodities which otherwise would be dutiable.

The problem of integration cannot, of course, be viewed simply in terms of the Prairie Provinces on the one hand and the Northwest Central States on the other. It must be viewed in terms of the integration of the two economies, each taken as a whole. In these terms, Canada's relative advantage probably lies principally in such commodities as paper, wood and wood products, non-ferrous metals and their products — products in which electricity is the chief form of power, and in certain agricultural products such as animals and animal products and dairy products. In the United States the relative advantage would lie in the products of heavy industry — iron and steel products, automobiles, etc. — and in certain natural products like cotton and vegetable oil-producing crops, coal, and certain fruits.

An examination of the commodities of greatest importance in the area of this continent under study in this report shows that competition between Canada and the United States has been, or is becoming, of marked importance. These two countries have been competitors in the world wheat market for a long time. The present war is intensifying this competitive position by extending it to dairy products, bacon, eggs, and fish. This leaves livestock, coarse grains, vegetables, fresh fruits, lard, and corn as the products in which greater continental specialization might be attempted.

Wheat and bacon depend mainly on the British market at the present time. Canada and the United States both produce surpluses of these commodities. Consequently, the prospects for these two commodities depend principally on the trends in European markets together with the extent of the domestic demand.

We have argued that what is most desirable is that at the end of the war there should be curtailment of wheat production in the countries of Western Europe where wheat prices have been unreasonably high, and the purchase by these countries of the surplus wheat of the efficient wheat-producing regions of the world, Canada and the United States, and Australia and the Argentine as well. This in turn would lead to a price adjustment mutually beneficial to both areas. Moreover, were wheat to flow to Europe in large quantities the present differential as between Canadian and American wheat prices would probably disappear, the price being determined in the world market. Europe could then secure her wheat at about one-half the price she has paid in the past.

It is possible that some further degree of territorial specialization may be possible in that the corn-fed hog of the United States is a pro-

ducer of lard, while the grain-fed hog of Canada is a producer of bacon. In view of the relative supplies of coarse grains and corn in the two countries it may be that there is ground for tariff arrangements which would stimulate trade in these commodities.

But as in the case of wheat, so in the case of lard and pork, the difficulties of adjustment as between Canada and the United States would be greatly reduced by the increase in European markets. Before the era of extreme self-sufficiency in Western Europe, the rate of export of American lard to Europe was very great. If the United States can regain some of the markets for lard that she has lost, pressure on lard production would be reduced. Indirectly this would be beneficial to the dairy industry also, were it to be faced with small imports of Canadian butter.

Cattle were imported into the United States free of duty from 1913 to 1921. During that time a prosperous ranching industry was established in Western Canada. This was seriously restricted as early as 1921 with the imposition by the United States of a tariff of 30 per cent on cattle. Later the rate was changed to three cents a pound, the rate that prevailed at the time of the trade treaty of 1935 with Canada. In recent years imports of Canadian cattle at low duties have been limited by quotas under the Canada-United States Trade Agreement. The removal of these restrictions on the import of cattle into the United States would increase the quantity of Canadian range cattle moving into the American market. Moreover, it is the opinion of one of the personnel of the United States Bureau of Agricultural Economics that "it is doubtful whether the additional cattle imports would represent any real competition to our own (i.e., American) range cattle industry since much of the resulting product would be re-exported to Canada for Canadian consumption. Under the improved general demand situation assumed for both countries, it is probable that per capita beef consumption in both countries would be somewhat greater."¹ It is very apparent in both the United States and Canada today that high income levels mean a large consumption of meat. The fattening of cattle in the cornbelt of the United States would be encouraged and the stimulation of the range cattle industry through improved markets would facilitate the shift from wheat to ranching in the driest areas of Southern Saskatchewan and Alberta.

For the most part removal of restrictions on trade in fruits and vegetables would result in increased movements from the United States,

¹Ronald L. Mighell: "Effects of American-Canadian Trade Reciprocity on Agriculture," *Journal of Farm Economics*, November 1942.

either because of seasonal differences or because of differences in the kinds of fruits and vegetables produced. Citrus fruits would be exported by the United States to Canada, and Canadian potatoes, for example, would probably be exported to the United States in larger quantities.

In general terms it seems unlikely that the American market is of great importance for Western Canadian agricultural products except cattle, or that the Canadian market is very important for American agricultural products. In other words, Canada must continue to look principally to European markets to absorb her main agricultural surpluses, and the United States, while less concerned than Canada about external markets, must also continue to look to Europe as an outlet for her surplus agricultural products. The progress already made in wartime cooperation should be continued and extended in every practicable direction. After the war increased specialization by Canada in some products and by the United States in others may provide further opportunity for desirable integration of the productive arrangements of the two countries. The program that has been proposed, which looks primarily to Europe as the world's great deficit area in agricultural products, should be supplemented by any desirable adjustment between the United States and Canada.

ARTHUR R. UPGREN, *Director of the Project
Professor of Economics, School of Business Administration,
University of Minnesota, and Vice-President and
Economist, Federal Reserve Bank of Minneapolis*

WILLIAM J. WAINES, *Associate Director
Professor of Economics, University of Manitoba*